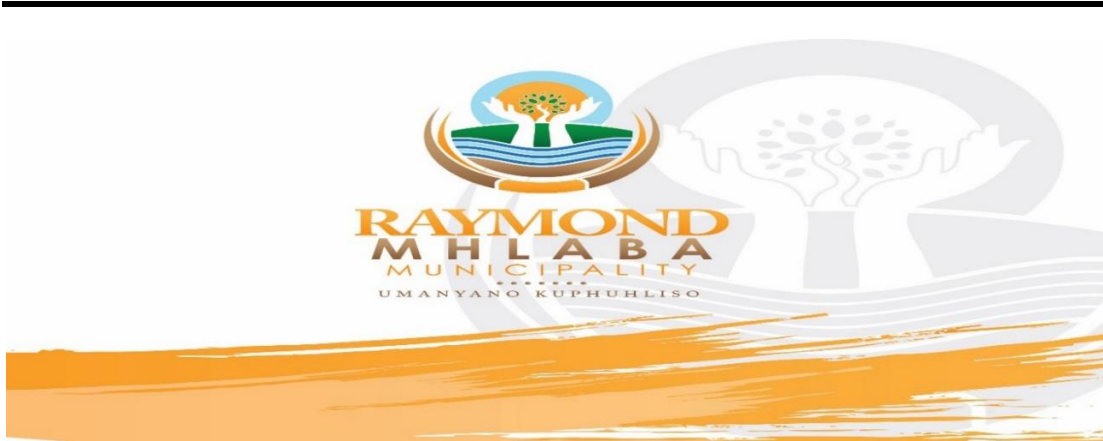




FINAL BUDGET 2018/2019



RAYMOND MHLABA EC129

2018/19 TO 2020/21 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Prepared in terms of the Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 April 2009.



2. GLOSSARY

Adjustments Budget – prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – the financial plan of the municipality.

Budget related policy – policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debt collection policy, etc.

Capital Expenditure – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the municipality's balance sheet.

Cash flow statement – a statement showing when actual cash will be received and spent by the municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.

DORA – Division of Revenue Act. Annual legislation that shows the amount of allocations from National to Local government.

Equitable share – a general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GAAP – General Accepted Accounting Principles. World Wide Accepted Standards.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the municipality.

KPI's – Key Performance Indicators. Measures of service output and / or outcome.



MFMA – The Municipal Finance Management Act – no 53 of 2003.
The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years' budget allocations. Also includes details of the previous and current year's financial position.

Operating expenditure – spending on the day to day expenses of the municipality such as salaries and wages.

Rates – Local government taxation based on an assessed valued of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – the main priorities of the municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – generally, spending without, or in excess of, and approved budget.

Virement – a transfer of budget

Virement Policy – The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be taken and approve by Council.

Vote – one of the main segments into which a budget is divided, usually at directorate / department level.



3. MAYORAL BUDGET SPEECH

State of the Municipality Address and Budget Speech

By His Worship, the Mayor of Raymond Mhlaba Municipality

Honourable Speaker, Cllr A. Ntsangani

Honourable Chief Whip, Cllr L Penisi

Members of the Executive Committee

Chairperson of Municipal Public Accounts Committee

Chairperson of Women's Caucus

Honourable Councillors

Esteemed Traditional Leaders

Leaders from the Political Structures in attendance

Leaders from our sector government departments and District

Leaders from Salga

Representatives from civic and fraternal organisations

Distinguished Guest

Fellow compatriots from the length and breadth of Raymond Mhlaba Municipality

I would like to start by re-affirming a historical fact that the Raymond Mhlaba area has its own archives in the chapters of the struggle against all of forms of injustices. It is very important that we continue to remind ourselves about the proud history of our area. Raymond Mhlaba, from which our municipality derives its name is a product of the eight Wars of Resistance against the colonial conquest. This is home to the finest military strategists, such as King Jongumsobomvu Maqoma championed a guerrilla warfare during the Frontier Wars, a breeding ground for past and contemporary leaders of national liberation, black consciousness and armed struggle, a place of renowned academics and civil rights activists. Therefore, the Raymond Mhlaba area is a foundation upon which struggle against colonial domination, the development of the black people, freedom of our country gained grip.



We basically use this historical background in order to revive our conscience so as to remind ourselves of the road we have travelled to be where we are today. As we celebrate the 24 years of freedom and democracy, our own government remain the only agent of change that has the capacity to uplift the material living conditions of our people. There is valuable evidence that our government has made progress in improving the living conditions of our people given the continued provision of free basic services such as water, sanitation, housing, electricity and education.

Accordingly, the skewed, unequal economic distribution and flawed ownership patterns are the core challenges confronting our country today. The end-product of this anomaly presents itself as the triangular challenges in the form of unemployment, poverty and social inequality. Thus, if left unattended, the triangular challenges will definitely derail our democratic gains and compromise the quality of our democracy.

Therefore, the urgency to change the economic imbalances in terms of ownership and distribution is very central in our quest to transform our society. Hence, our vision is to strive for “a municipality championing radical socio economic growth and service excellence”. As government, we will foster and consolidate our democratic gains by breeding a favourable economic environment for the masses of our people, including the vulnerable groups. Centrally in our socio-economic transformation project is to impart significant material changes in the living conditions of our people.

Programme Director

The National Executive Committee of the ANC resolved to celebrate 2018 as the year where two of its own stalwarts Nelson Mandela and Albertina Sisulu would have celebrated 100 years of age had they lived today. The centennial celebrations of our struggle icons should make us to remember the lives and sacrifices of these remarkable leaders of this country and this continent.



As we recount Madiba's legacy, his wisdom, unfailing humility, abiding compassion and essential integrity should never lose our sight. We are required to devote our every action, effort, commitment to the full accomplishment of a united, non-racial, non-sexist, democratic, just and equitable society. President Mandela was an exemplary and ethical leader. Thus, it's incumbent upon us who are given leadership responsibilities to emulate his exemplary commitment to ethical behaviour and leadership. This we will achieve by denouncing corruption, striving for clean governance, and fighting against any tendency that seeks to promote selfishness and greed.

Challenges Facing Raymond Mhlaba

Our activities as this municipality are driven by the realisation that Raymond Mhlaba Municipality is a new entity that emerged as a merger of the former Nxuba and Nkonkobe municipalities. We are therefore building something new and fragile. Fragile in that both municipalities have a very low revenue base while at the same time facing mammoth challenges. Recent statistics indicate that in 2016, our unemployment rate in Raymond Mhlaba stands at 47,6%, way above the national average; our poverty rate stands at 39,9%; and 35,9% of households has income that is below the poverty line.

This dire economic situation is exacerbated by the fact that the new municipality has inherited electricity debt that now stand at over R80million which we are expected to service taking away from our coffers about R10million monthly, money which should be going towards improving service delivery. All this is taking place at a time when our electricity infrastructure is old and needs urgent attention, and our roads and streets are deteriorating, and our fleet and plant are getting old and need more money to repair and keep them in operation, while more and more people are getting unemployed which means less and less people will be able to pay for services.



These circumstances make it essential for our municipality to reprioritise expenditure and to improve their efforts to limit non-priority spending and implement stringent cost containment measures. The compilation of the Medium-Term Review and Expenditure Framework remains a huge challenge to balance the budget between limited revenue resources available and the immense need to provide quality services to our communities. Tariff increases must be limited to be kept within the affordability levels of our communities and must still promote economic growth to ensure financial sustainability.

The retention of cash-backed reserves is critical for the long-term sustainability of the municipality and to this end the municipality is unable to achieve this objective. The municipality will try to build its cash-backed reserves by ensuring that all non-cash items are budgeted in the future. This will be achieved by ensuring that the municipality stick to its plan and also embark on projects that are revenue generation in nature.

The municipality's total budget amounts to R395, 200 000 and the total operating revenue amounts to R360 562 600. Capital Transfers are R34, 637 400. The total operating revenue has decreased by R25, 191 million for the 2018/2019 financial year when compared to the R 2017/18 Adjusted Budget. For the two outer years operational revenue is increased by 8% and 6%.

Capital projects, both on-going and those to be introduced in the coming financial year are outlined in the table below. Among the new projects that will be commenced in the coming financial year, 2018/19, are the high masts and installation of electrical infrastructure which combined have been allocated R6,5 million; a park allocated R2,6 million; paving and greening projects in Ntselamanzi, Hillside to Ntoleni, Debe Nek, and Jakaranda totalling R12,1 million. Resurfacing in Adelaide has been allocated R4,5 million while resurfacing in Bedford has been allocated R6,1 million. The next phase of Fort Beaufort sports complex has been allocated R1 million.

Several community halls and Day Care centres such as Binfield, Kwameva, Khulile, Ntonga, Massdorp, Mbizana, Dyamala, Chwaru, Mdeni, Xhukwana, Sityi, Zibi, kwaMathole, Lugudwini, Qhomfa, Thafeni are at the completion stage with finishes being done, while Khulile community hall has been allocated R500 000. Other paving projects at completion stages are Golf Course, Gugulethu, Group 5 to Cape College and Gqumashe. The next phases are subject to securing funding from government sources in the course of this financial year.

Project	Sum of 2017/2018	Sum of 2018/2019	Sum of 2019/2020
CHICKEN ABATTOIR – MIG	1,000,000.00		
COMMUNITY HALL – KHULILE	500,000.00	500,000.00	
COMMUNITY HALL - MAZOTSHWENI	690,000.00		
COMMUNITY HALL – SITYI	500,000.00		
COMMUNITY HALL – THAFENI	690,000.00		
COMMUNITY HALL – ZIBI	500,000.00		
COMMUNITY HALL- QOMFO	690,000.00		
CONSTRUCTION OF MUNICIPAL POUND	500,000.00		
COUNCIL CHAMBERS	2,500,000.00		
DAY CARE – QHOMFU	890,000.00		
DAY CARE CENTRE- FORT BEAUFORT	500,000.00		
DAYCARE CENTRE - LUGWIDINI	450,000.00		
DAYCARE CENTRE – MEVA	440,000.00		
DAYCARE CENTRE - XHUKWANA	500,000.00		
DAYCARE CENTRE – ZIGODLO	500,000.00		

FENCING OF CEMETERIES	560,000.00		
HIGHMAST LIGHTS	1,000,000.00	4,000,000.00	4,000,000.00
INSTALLATION OF ELECTRICAL INFRASTRUCTRE	1,000,000.00	2,500,000.00	2,500,000.00
MAKHUZENI SPORT FIELD	1,500,000.00		
MULTI-PURPOSE CENTRE – MIG	1,150,000.00		
MULTIPURPOSE CENTRE- GOODWIN PARK	1,500,000.00		
NGQOLOWA SPORT FIELD - MIG	1,500,000.00		
PARK – MIG		2,610,200.00	5,000,000.00
PAVING & GREENING - CHRIS HANI	2,120,000.00		
PAVING AND GREENING - GOLF COURSE	1,500,000.00		
PAVING AND GREENING - NTSELANMANZI	1,000,000.00	1,600,000.00	4,220,000.00
PAVING AND GREENING- HILLSIDE TO NTOLENI	2,376,150.00	3,500,000.00	4,000,000.00
PAVING DEBE-NEK – MIG	1,500,000.00	3,500,000.00	4,000,000.00
PAVING GUGULETHU - MIDDLEDRIFT	1,000,000.00		
PAVING OF STREETS- JAKARANDA	1,500,000.00	3,500,000.00	
RECREATIONAL FACILITIES - HORSE RACING	2,000,000.00		
REGRAVELLING OF ADELAIDE	973,150.00		
REHABILITATION OF WANDERES SPORTFIELD	1,000,000.00		

RESURFACING OF ADELAIDE	2,500,000.00	4,500,000.00	4,500,000.00
RESURFACING OF BEDFORD	2,000,000.00	5,502,900.00	5,000,000.00
SPORT COMPLEX FORT BEAUFORT PHASE 1	2,500,000.00	1,000,000.00	1,634,950.00
UPGRADING OF NONZAKWAZI SPORTSFIELD	300,000.00		
VIC-DEBE NEK	560,000.00		

We have, in our quest to ensure that there is equitable distribution of resources in all areas of the municipality, Council has made commitments to ensure that there are development projects in all the wards of Raymond Mhlaba. Whilst we are conscious of our financial constraints as outlined above we have decided that every ward should identify projects to the amount of R1,3 million that will be implemented in their areas as and when funding is secured. Priority in this case will be given to wards that do not have any projects implemented in their space.

Allocations by Sector Departments

Programme director

Various sector departments and the Amathole District Municipality have responded positively to our needs and requests to fund various projects in our municipality. We are happy to announce the following projects that will be funded other government institutions in Raymond Mhlaba. These projects will lead to many employment opportunities in our municipality which will add to more than 2000 work opportunities already funded by the Community Work Programme (CWP) and Expanded Public Works Programme (EPWP).



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DEPARTMENT/INSTITUTION	PROJECT DESCRIPTION	BUDGET
Amathole District Municipality	Eradication of the Bucket System in Bedford and Adelaide – Phase 6	R10 000 000
	Hogsback Water Treatment Works and New Reservoir	R1 000 000
	Fort Beaufort Bulk Water Upgrade	R40 000 000
	Nkonkobe Area Wide Sanitation Region 3A	R10 000 000
	Bedford Waste Water Treatment Works	R200 000
	West Victoria East Water Supply – Phase 4	R200 000
	Ekuphumleni & 9 Villages Water Supply – Phase 5	R200 000
Department of Environment (Working for Water)	Control Alien Invasive Plants , Restoration of River System and Fire Management	R10 616 520
SANRAL	Road works – Grahamstown to Fort Beaufort	R229 000 000
	Road works – Fort Beaufort to Seymour	Not specified



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World Vision	Education	R2 045 440
	Child Protection	R1 150 560
	Sponsorship Management	R3 196 000
Department of Economic Development Environmental Affairs and Tourism	Fencing Khayaletu Community Game Reserve (Brakfontein)	R6 000 000
	Implementation of Mini-Grid Energy Project	Not Specified
	Planning and Implementation of Alice Recreational Park	R94 000 000
	Implementation of Tyhume Quarries	R3 500 000
Department of Human Settlements	Rectification of Houses and Construction of new Houses	R30 000 000
Department of Rural Development and Agrarian Reform	Land Care; Integrated Fire Management; Citrus; UFH Household Food Security Learner ship; Cropping and Livestock Improvement	R9 235 600
Department of Environment	Double Drift Nature Reserve / Great Fish River	R6 000 000
Department of Energy	Electrification of 220 Households	R5 000 000
	Fort Beaufort Munic one 11kV Feeder Mv	R1 400 000



In our quest to transform the current economic trends, we consciously promoted enterprise development in line with our 5 years commitment in supporting the SMME's and Cooperatives. We can attest that the Municipality continues to support the SMME's and Cooperatives by creating trading opportunities. Therefore, this meaningfully contributes in alleviating poverty and will assist us in closing the unemployment gaps. We reaffirm that enterprise development is central in driving our local economy. This resolve is bolstered by our 5 years commitment in having 60% of our procurement space directed to local SMME's, Cooperatives, Vulnerable Groups (Youth, Disable, Women and Military Veterans).

Farming and Agriculture

Programme Director

Raymond Mhlaba is a largely rural area endowed with fertile farming land and game reserves, and it would therefore be imprudent of us to neglect this economic sector of our area. Citrus farming in our area produce not only for national market but our products are exported to far off international markets and therefore contribute immensely in job creation and alleviation of poverty. That is why we were disturbed when citrus facilities were burnt down early this year and thereby denying over 300 employees a source of income.

Last year we undertook a joint study tour to Willowvale with traditional leaders of Raymond Mhlaba to learn about the model used there to promote agricultural farming of macadamia spearheaded by traditional leaders in that part of our province. We pledged in our strategic planning session earlier this year to fund a feasibility study aimed at involving communities and traditional leaders in the application of that model in our niche area which is the expansion of commercial production to previously disadvantaged communities on a mass scale. This is one of the major projects that we have entrusted to the Raymond Mhlaba Development Agency. We are committed to support our small and emerging farmers to ensure that they are empowered to exploit this competitive advantage of our municipality.



Small Towns Revitalisation Programme

As we strive to facelift of our towns, the municipality adopted a Small Town Revitalisation programmes. Due to the excellent work done by Raymond Mhlaba Development Agency and with the financial support by the Office of the Premier, Aspire (development agency of Amathole District Municipality), this programme has displayed a remarkable fruition given a number of projects that are progressing fairly well in Alice. This programme is intended to transform Alice into a university town similar to other university towns. As a municipality we are committed to collaborate with the University of Fort Hare to ensure that the social amenities, retail facilities and infrastructure in Alice is overhauled. An amount of R57 million has been allocated for 2018/19 this programme and we have signed a Memorandum of Understanding with the University to collaborate on the provision of student and staff accommodation; development of the anti-crime and safety and security strategy for students and residents. We are currently in the process appointing service providers to develop student hostels in town which, will result to over R1.5 billion investment in our municipality.

Given the excellent progress made, the Council resolved to cascade small towns revitalisation programme to other towns, such as Fort Beaufort, Middledrift, Seymour, Bedford and Adelaide. The Raymond Mhlaba Economic Development Agency has been mandated to fast-track this programme to its logical conclusion.

Programme Director

In terms of the Statistics South Africa of 2016, Raymond Mhlaba has the household electricity backlog of almost 10%, meaning that about 90% of our households are connected to the grid. We are doing all we can to ensure that every household in this municipality has electricity. We have set aside R5 million this year for electrification of un-electrified areas, this is the result of our application for assistance to the Department of Energy through its INEP programme. Through the partnership between the provincial Department of Economic Development, Environmental Affairs and Tourism and the State of Lower Saxony of Germany, the village of Lower Blinkwater will be connected to electricity through an innovative technology known as the Mini Grid.



Our municipality is a great place endowed with rich heritage coupled by splendid tourist attraction namely. Hogsback, Katberg, Double Drift Game Reserve, Maqoma Heritage etc. We have three distinct educational institutions that meaningfully contributed in the development of our society by producing quality leaders who shaped and changed the course of history. The University of Fort Hare, Lovedale College and Healdtown College are not only our treasures but are globally renowned academic institution. We are also home to Victoria Hospital which was established in 1898 as the first Missionary Hospital in South Africa. As the municipality we have committed in repositioning tourism as one of the channel to drive economic growth and development. Moreover, given the historical endowment of our area, tourism and heritage remain core tenets in this regard.

Moreover, as we articulated earlier on, that the Raymond Mhlaba Municipality is the home to the Victoria Hospital. It was established in 1828 as the first Missionary Hospital in South Africa. Let us further inform you that it is the first black hospital in South Africa. It prides itself for having produced Cecilia Makiwane, the first black professional nurse in South Africa. Accordingly, the Victoria Hospital will be celebrating 120th years on the 28th September 2018. The Raymond Mhlaba Municipality Council recently confirmed support for this milestone achievement for Victoria Hospital. There are lined-up programmes and events that will require maximum participation from our communities. The nature of those programmes and events will be made known to the public through various forms communication.

Programme Director

It is vital that we recap that in order to achieve our intended strategic objectives; we definitely need a capacitated, modernised and operational service delivery environment. This Integrated Development Plan and Budget, provides expression to the strategic thrust of local government which among others seeks to promote good governance, ensure basic service delivery to all our communities, contribute towards job creation and accelerated economic development and ensure financial sustainability and public participation.



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Programme Director

We express our sincere gratitude to residents and businesses that consistently pay their municipal accounts. Their contributions go a long way towards expanding and sustaining service delivery and will assist in ensuring that we realize our vision. Moreover, we are quite aware of many households who cannot pay, we will continue to assist them in our indigent programme. However, we are also quite aware that this municipality is owed in excess of R200 million by businesses, commercial farmers and government in rates and services. That money can go a long way in alleviating our financial woes in this municipality and improve the provision of better services. We are resolute in our resolve to apply strict credit control going forward and we urge all our debtors to approach our offices to make payment arrangements.

The provision of free basic services and indigent subsidy has increased in our budget in comparison to the previous years. However, we continue to be firm as our message is unambiguous: “abantu abakwaziyo ukubhatala inkonzo zika masipala, bayacelwa ukuba bazibhatala”.

Programme Director

We have received a number of complaints from the residents about the treatment they receive at the hand of some of our officials, and that their complaints are sometimes not attended to. In our resolve to improve our services and our relations with our communities, Council took a resolution to establish a fully-fledged customer care unit which will be housed in the Office of the Mayor. We want to make sure that every problem and every complaint, however small, is recorded and followed up until it has been solve and disposed of. Residents are also encouraged to utilize this service.

Programme Director

We, our municipality is named after one of the heroes of our liberation struggle, the former Commander in Chief of the armed wing of the African National Congress, a Rivonia trialist, a Robben Island prisoner, and the first Premier of the Eastern Cape, uTata uRaymond Mhlaba who hails from the village of Nondyola in Fort Beaufort. Next year a statue of Raymond Mhlaba which will be located at the Tony Yengeni Square in Fort Beaufort will be unveiled. We will also use the month of February, the birth and



death month of Oom Ray, as the month in which we honour the role played by this stalwart in the liberation struggle, as the month in which we emulate the heroic deed of our struggle veterans, celebrate achievements in service delivery and engage in various activities in his honour. We are honoured to have here among us the family of Oom Ray.

Programme Director

As we all know that June has been declared as the Youth Month in our National Calender. It is a month dedicated to honour the heroic deeds of our young people who had and continue to play a central role in our march to the creation of a free and prosperous nation. The main event in the celebration of our youth is being rotated annual from district to district and municipality to municipality. We are happy to announce here that Raymond Mhlaba Municipality has been chosen to host the main event of the Youth Month on the 29 June 2018. The entire you of our province will converge at the University of Fort Hare Sports Complex to mark this event.

Finally, Programme Director, as I wind up this address, I want to admit that 2017/18 has not been a very good year to us in Raymond Mhlaba. One of the most callous acts of criminality took place in this municipality. The Speaker of our Council Honourable Thozama Njobe was murdered in the most cruel way one can think of. This will always be a black spot in the history of this council and we are disturbed that up until today the killers have not yet been arrested and convicted. We have also recently received and buried the remains of one of the most illustrious sons of this area, the working class activist, the internationalist, the author and the former commander of UMKhonto We Sizwe, comrade Archie Sibeko. We will always honour them. Last but not least, we have been informed that one of the struggle veterans of our area, the revered and respected political activist and former commander of MK, comrade Mfengu Makalima, is critically ill in the ICU.

I request this audience to rise and dedicate a silent moment of prayer to these and other unnamed eminent individuals in our area who have played a tremendous contribution in the service of our communities.



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As I conclude, I wish to thank the Municipal Council, Traditional Leaders and all the rate payers, further urge and encourage every resident, every business, every community and non-governmental organizations, to take this opportunity to read and engage with and provide feedback to us on our IDP. Furthermore, it is only with your commitment and by working together that we can achieve our Municipal Vision.

Thank you!



4. BUDGET RELATED RESOLUTIONS

On 30 March 2018 the Council of Raymond Mhlaba Local Municipality will meet in the Council Chamber to consider the Draft IDP and Annual budget of the municipality for the financial year 2018/19. The Council to approved the following resolutions:

1. The council to adopt the Draft IDP for 2018/2019 financial year as a strategic document to guide developmental initiatives and programmes for duration of the period enunciated therein,
 - 1.1.1. The organizational structure for 2018/2019 financial year, which is an annexure to the IDP.
 - 1.1.2. The IDP and Budget 2018/2019 should be made public in terms of section 21A and 21B of the Municipal Systems Act.
 - 1.1.3. The copy of the IDP and Budget 2018/2019 be submitted to the MEC for Local Government in terms of section 32 of the Municipal Systems Act.

5. OVERVIEW OF THE BUDGET

5.1 Balanced and Credible Budget

The following National Treasury guidelines have been taken into consideration when preparing the budget:

- Tabling a balance and credible budget that is based on realistic estimates of revenue to be collected, taking into account both actual revenue collected in the past financial year, and revenue projects for the current financial year.
- The inclusion of all grants in the annual budget, on both the revenue and expenditure side;
- The presentation of three-year capital and operating budgets;
- The revision of the IDP to be consistent with the three-year budget;
- The maximum expenditure growth limit of 6% to stay within inflation targets as determined by National Treasury. The growth limit applies to own revenue sources only and excludes intergovernmental grants, for both the capital and operating budgets.
- Increases in rates and taxes have been kept within inflation targets, in support of government's macro-economic objectives and investor confidence.

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous year's surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget



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Achievement of these requirements in totality effectively means that council has “balanced” its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. The budget of the municipality is therefore not sustainable over the long-term, this is indicative in its funding measurement due to the low own revenue streams.

Credible Budget

Amongst other things, the following has been taken into consideration to ensure that this is a credible budget;

- Only activities consistent with the revised IDP have been included in the budget, taking into consideration the financial constraints of the municipality;
- It is achievable in terms of the agreed services delivery and budget implementation plan and performance targets;
- Contains revenue and expenditure projection that are consistent with current and past performance
- Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term; and
- Provided managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

The budget sets out certain service delivery levels and associated financial implications, therefore the community should realistically expect to receive these promised service delivery levels and understanding the associated financial implications.

5.2 Government Priorities Considered

THE MTREF

The budget has been prepared based on the new requirements and significant progress has been made on the implementation thereof. However, some processes are still being developed to ensure full compliance, which include activity based costing, asset management, system shortcomings, human capacity building amongst others.

Although the fact that our municipality is categorized as Low Capacity Municipality, it is also of outmost importance to ensure that Council complies with all legislative requirements, this entails the channelling of fund which would ordinarily be utilized for services delivery to the implementation of the legislative requirements.

In President Cyril Ramaposa's State of the Nation Address of 2018, he indicates government key priorities to be:

- To address the issue of unemployment, poverty and inequality by Creation of Job Opportunities
- To create an enabling environment for stakeholders to invest and grow the economy
- Strengthening the state: addressing crime and lawlessness as its unchecked cancerous growth undermines and paralyses the national will.
- Reassure international partners: a recalibration of the nation's foreign, trade and security policies and strategies is needed.
- Manage the public mood: Political stability remains the bedrock of any successful transition. The most important immediate priority is to offer credible evidence of a competent team in charge.
- Stabilise the African National Congress: by deploys loyal cadres to occupy senior positions in government.



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Therefore, in framing this budget, priority has been given to objectives and priorities of government based on the IDP to be adopted by council.

A bulk electricity purchase has increased drastically over the past two years as result of NERSA and ESKOM tariff increases. Bulk electricity price increase for 2018/19 from ESKOM will be 7.32% while NERSA document proposes an increase of 6.84% for municipal tariff increase in 2018/2019. The municipality will propose a higher tariff to ensure that the cost structure of providing the service is not putting the municipality in a bad position and that the tariff is cost-reflective to ensure that the municipality is financial viable and this depends upon final approval by NERSA.

The municipality has set aside R 1 400 000 for electrification of rural areas in an attempt to reduce the backlog on access to electricity of communities. The INEP grant has been reduced by R 3 600 000 for 2018/2019 financial year and this puts an enormous burden to the municipality and affects the service delivery. The municipality has also embarked on reduction of electricity losses so as to attain almost full recovery of electricity costs, which in turn will result in timeous payments of the electricity provider.

In an attempt to addressing challenges faced by the underprivileged, as well as the successful implementation of the indigent campaign, the provision of free basic services and indigent subsidy are increasing in our new budget in comparison to previous years. Electricity income however is also increasing due to the higher demand based on more households having access to electricity, expansion of the municipality and the increase in municipal tariff.

The municipality is working towards the achievement of realising a surplus in future. The municipality has entered into a new agreement with Eskom for the recurring debt that was not catered fully for in the adjustment budget. The municipality has set aside an amount of R55 million for Bulk purchase on electricity for the 2018/2019 financial year.



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The area of focus in the coming financial year will be mainly in collecting revenue, which is mainly on rates revenue and service charges, and to focus on funding core functions of the municipality and to cut expenditure on non-service delivery projects to ensure the financial viability of the municipality since there is an indication that Raymond Mhlaba Municipality is very much grant dependant at this stage. We are also embarking on reducing/management of Electricity losses due to illegal bridging and tempering in our areas.

The effective management of assets will also be a focus area to ensure that all assets are maintained and repair based on their conditions taking into account the cost effectiveness thereof. The municipality has assessed the current fleet assets and ensure that all those assets that are no longer having economic value are disposed to avoid spending much on repairs and maintenance.

A financial recovery plan has been developed to assist the municipality to control its revenue and expenditure in future. Changes were made to the existing budget related policies to ensure that are in line with the 2018/2019 draft budget.



6. EXECUTIVE SUMMARY

INTRODUCTION

With the compilation of the 2018/19 Medium-Term Revenue and Expenditure Framework (MTREF), during institutional strategic session, each department had to review its business planning processes taking into account their IDP objectives and individual departmental strategies. Business planning links back to priority needs and master planning, and essentially inform the detail operating budget appropriations and three-year capital programme. National Treasury's MFMA Circular No. 89 and 91 was mainly used to guide the compilation of the 2018/19 MTREF.

The 2018 Budget Review emphasised that, although global risk factors remain elevated, the world economy continues to provide a supportive platform for South Africa to expand trade and investment. The world economic growth is at its highest since 2014 and continues to gather pace with Gross Domestic Product (GDP) growth increasing across all major economies.

South Africa has experienced a period of protracted economic weakness which diminishes private investment. This may be attributed to domestic constraints, associated to political uncertainty, and declining business and consumer confidence. The local economy is beginning to recover after a short recession in early 2017 however the improvement is insufficient. Growth has remained stagnant at less than 2 per cent and unemployment remains high at 26.7 per cent. The GDP growth rate is forecasted at 1.5 per cent in 2018, 1.8 per cent in 2019 and 2.1 per cent in 2020. Statistics South Africa's December 2017 economic statistics showed an unexpected improvement in the economic outlook, largely as a result of growth in agriculture and mining.

The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. These economic challenges will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for revenue projections.



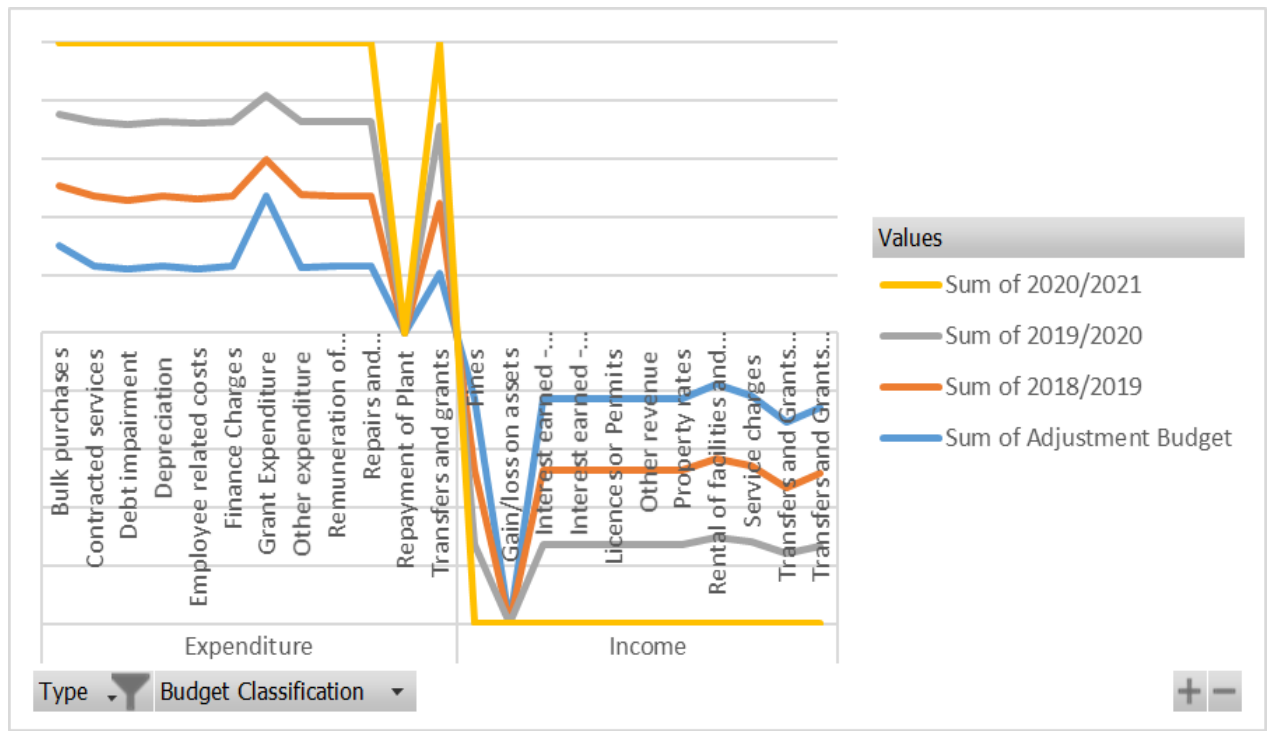
DRAFT BUDGET 2018/2019

These circumstances make it essential for municipalities to reprioritise expenditure and to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

The compilation of the MTREF therefore remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability.

The municipality is not in a healthy financial position, however, it needs to at least stabilise and further strive to continuously better its financial position, coupled with acceptable levels of service delivery at affordable tariffs. The retention of sufficient cash-backed reserves is critical for the long-term sustainability of the municipality, and to this end the municipality is unable to achieve this objective. The municipality will try to build its cash-backed reserves by ensuring that all non-cash items are budgeted for and are cash-backed in the future. This will be achieved by ensuring that the municipality stick to its plan and also embark on projects that are revenue generation in nature.

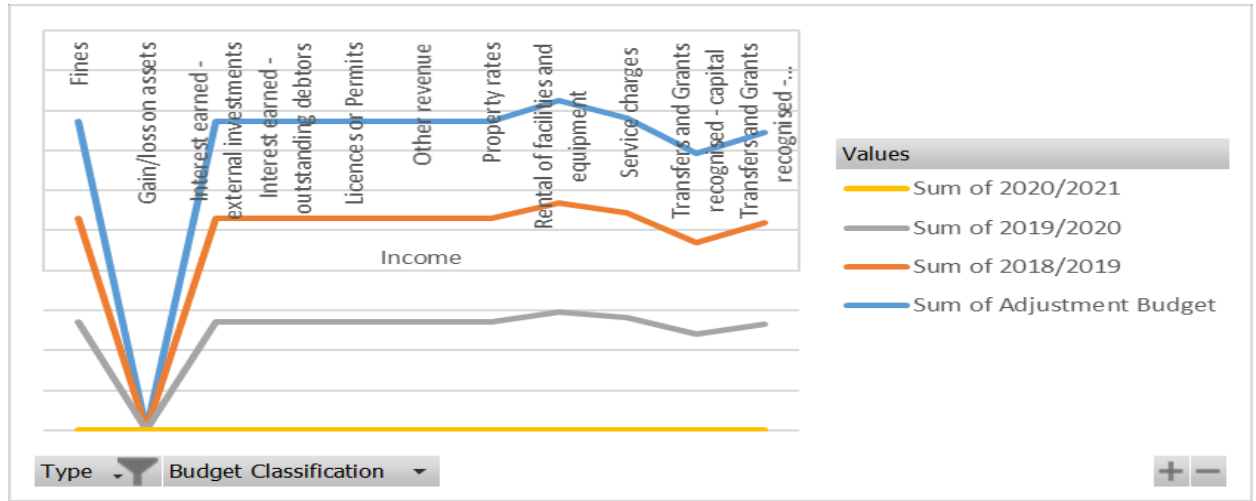
Consolidated Overview of the 2018/19 MTREF (R'000)



The municipality will not be able to sustain itself over the MTREF based on the table above, as it does not have adequate funding and reserves. The municipality is facing an immediate high risk that it would run into cash flow problems, as it was noted that the budgeted operating expenditure exceeds the operating revenue with the exclusion of non-cash items such as depreciation. Further as noted in the statement of financial position the municipality's current ratio is unable to cover for its immediate financial obligation as the creditors exceed the debtors. Further the cash flow is in a negative position to be able to finance the municipalities operations.

With the absence of grant funding from National Treasury, the municipality will not be in a position to fund its commitments and fulfil its obligations. The budget of the municipality is therefore not sustainable over the long-term, an indication of low own revenue streams, growing gross debtors balances and the inability for the cash and cash equivalents to cover the growing creditors balances.

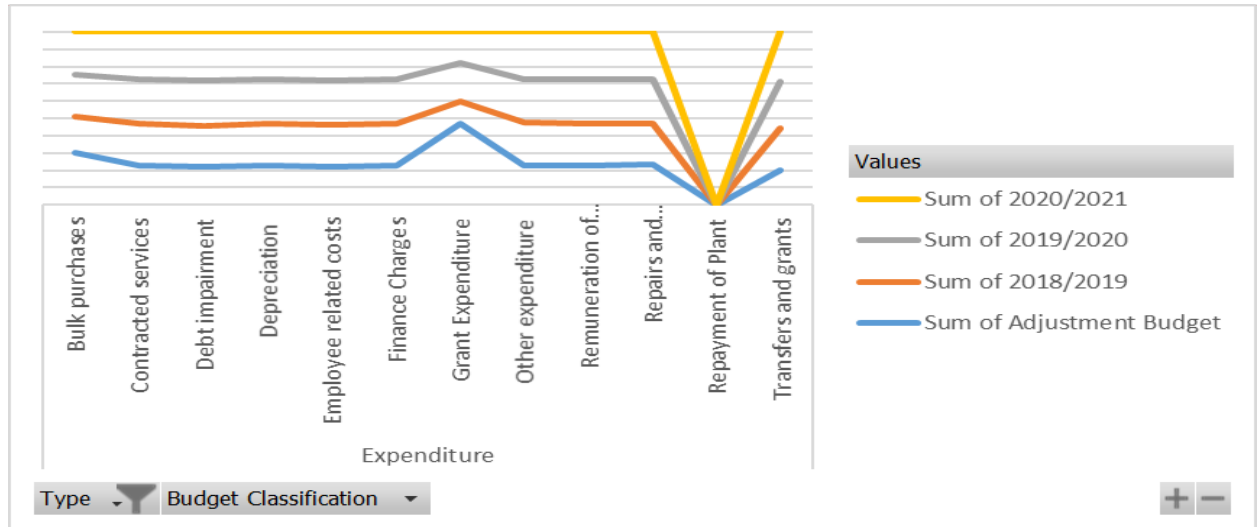
OPERATING REVENUE BUDGET



The municipality's total budget amounts to R395, 200 000 and the total operating revenue amounts to R360 562 600. Capital Transfers are R34, 637 400. The total operating revenue has decreased by R25, 191 million for the 2018/2019 financial year when compared to the R 2017/18 Adjusted Budget. For the two outer years operational revenue is increased by 8% and 6%.

The increase is mainly due on the anticipated revenues to be collected on property rates and service charges. However, there is a significant decrease in the anticipated operating grants transfers. This is due to reduction of INEP grant and the demarcation grant that is not provided for in the current year.

OPERATING EXPENDITURE BUDGET

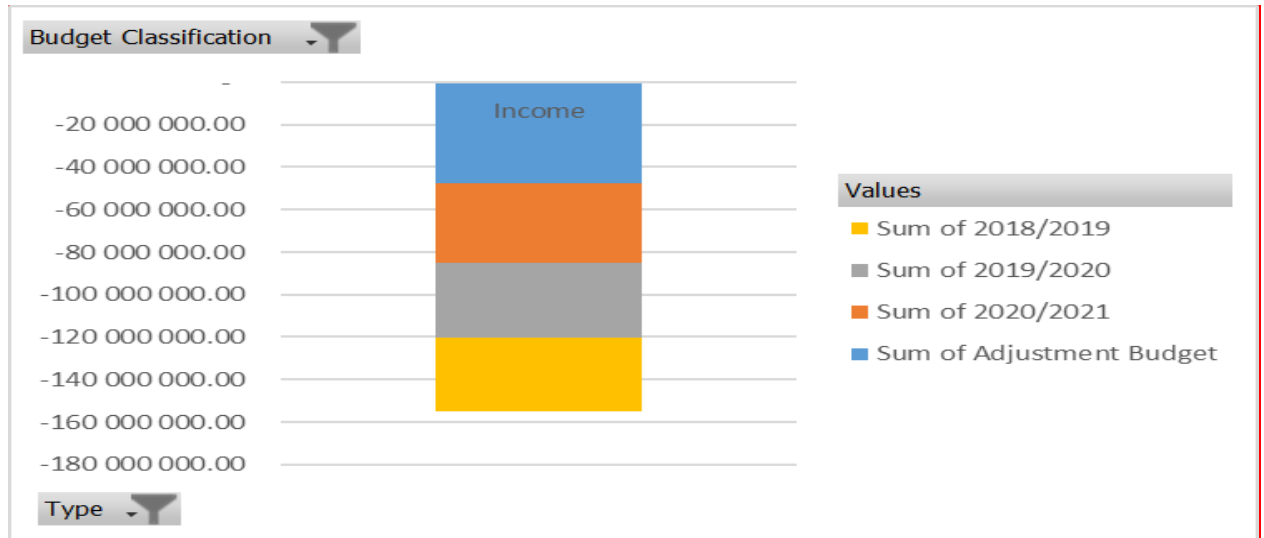


Total operating expenditure budget amounts to R 377 948 million and translates into a deficit budget before capital transfers. When compared to the 2017/18 Adjustments Budget, operational expenditure has decreased by 7 per cent (30,767 million) in the 2018/19 budget. For the two outer years, operational expenditure increased by 9% and 5% respectively.

The municipality remains committed to a large capital programme with a significant portion funded by grants from National Government.

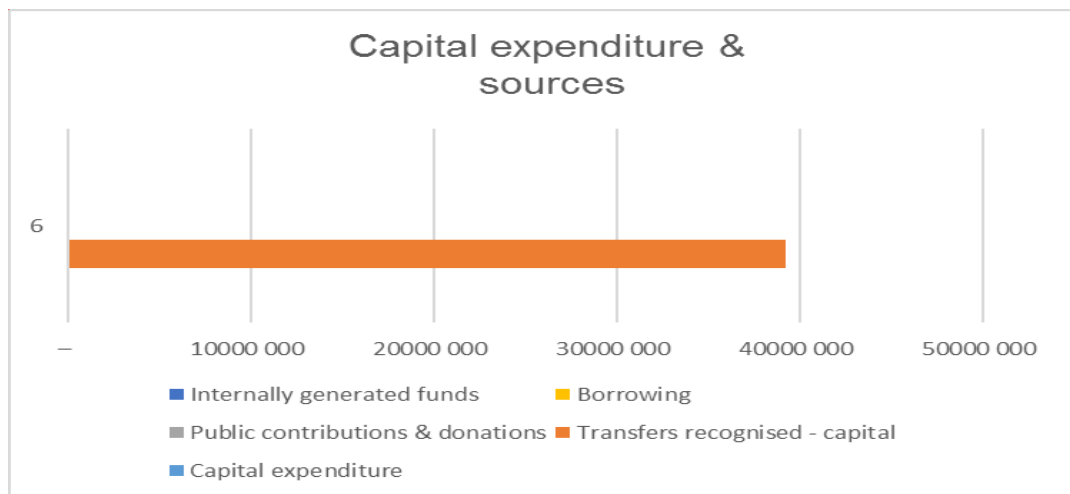
- ☐ The decrease was influenced by the following expenditure items:
 - ✓ Bulk Purchases
 - ✓ Other expenditure
- ☐ The following expenditure items have however increased: -
 - ✓ Employee related costs
 - ✓ Remuneration of councillors
 - ✓ Debt Impairment
 - ✓ Depreciation & asset impairment
 - ✓ Transfers and Grants
 - ✓ Finance charges
 - ✓ Repairs and Maintenance

Total Capital Funding of the 2018/19 MTREF (R'000)



Total operating capital budget amounts to R 34 637 million. When compared to the 2017/18 Adjustments Budget, capital expenditure budget has decreased by 12 996 million in the 2018/19 budget. It should be noted that the MIG grant gazetted amounts to R 38 486 million, however, 5% of that amount is allocated to PMU operations, 5% of MIG transfer is allocated to LED projects and the other 5% is allocated to Capital repairs and maintenance of aging electricity infrastructure.

The municipality did not allocate a portion of the capital budget to be funded from own revenue due to the fact that the municipality does not have cash-backed reserves to fund its capital. The provision can be made in consultation with other departments to reduce their expenditures and be encourage where necessary to outsource funding to implement other project.



As indicated above no borrowing for capital projects is planned. The municipality is still well within the limits of its borrowing capacity, but will raise very limited leases in the near future in order to curtail possible rising debt servicing costs.



7. Key Budget assumptions

External factors

Since the 2017 Medium Term Budget Policy Statement (MTBPS) reprioritisation and reductions undertaken have affected planned spending for 2018/19. Local government direct and indirect transfers absorb 18.8 per cent of the reductions. A total of R13.9 billion has been cut from direct local government conditional grant allocations for the Medium Term Expenditure Framework (MTEF) period ahead since the 2017 MTBPS was tabled. Indirect grants to local government have been reduced by an additional R2.2 billion.

The reductions did not affect all conditional grants, and not all grants were reduced by the same percentage. The infrastructure conditional grants, particularly the larger ones, were mainly affected as this was considered the most practical approach. The overall impact of reducing this funding affects capital programmes; therefore, local government's share of the reductions is higher than their share of the division of revenue, given that municipalities receive a number of infrastructure grants. The average reductions over the medium term are 3.5 per cent of local government allocations.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

General inflation outlook and its impact on the municipal activities

There are six key factors that have been taken into consideration in the compilation of the 2018/19 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on municipality's residents and businesses;
- Reduction of Infrastructure Grants which affects service delivery;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in employee costs.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate of CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage of annual billings. The collections of the municipality on outstanding debtors are anticipated to increase during the coming financial period due to implementation of effective credit control and the revenue enhancement strategy and financial recovery plan. It should however be noted that the revenue budgeted for are 60% based on billing and therefore we need to explore and implement effective controls to increase our revenue collection.

Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Draft Tariff increases

It should be noted that the tariffs are attached as an annexure to the budget due to the complexity of the tariffs versus the budget schedule.

- Service charges – Electricity tariffs will increase by 10% for 2018/2019 financial year subject to NERSA approval. This is based on the average cost of rendering the service.
- Property rates tariffs – The tariff on property rates will increase by 6%.
- General (Other Tariffs) – other tariffs will increase by 6%
- Interest on investments – We aim to put more monies on our short term investment accounts resulting in an increase of interest received.
- Interest on outstanding debtors – Based on the more effective implementation of the credit control and debt management policy it is expected to decrease.



Salary increases and Council Remuneration

There is no collective agreement on salary increases in place for 2018/2019 financial year. Based on the circular and the notch increase we have budgeted for 8% increase for the 2018/2019 period and 6% for senior managers.

The budget for the council remuneration has been increased by 6% compared for 2018/2019 financial year.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Poverty Alleviation



To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of 100% will be achieved over the MTREF period.

Budgets are prepared in an environment of uncertainty. To prepare a meaningful budget, assumptions are made about internal and external factors that could influence the Annual Budget.

Other assumptions:

- Investments
Raymond Mhlaba municipality does not have long-term investments, only call accounts which are included in the cash and cash equivalents as per our annual financial statements.
- Borrowing
The municipality is not in a process of applying for any loans.

Service delivery

As part of the improvement of service delivery, more strategies will need to be developed and implemented to ensure that we meet the needs of the community and eliminates factors that have a negative effect on councillors' finances.



Implementation of GRAP and mSCOA

The municipality will fully implement mSCOA in 2018/2019 financial year. FMG (grant received from National Treasury) and own revenue is used to maintain compliance with GRAP and mSCOA.

Internal Charges

The current method of cost recovery between service departments must be reviewed in terms of Activity Based Costing Principles and Standards. Activity based costing principles if correctly applied, will ensure that all costs applicable to a specific service are recorded. This means that tariff setting will be improved. Our current financial system cannot perform this function and due to capacity problems within the finance department, this function will be done by the affected departments.

Functions outsourced and functions performed on agency basis

- No municipal services have been contracted out to section 21 or Proprietary Limited companies other than there one for external securities.
Agent for Department of Roads and Transport on certain e-Natis transactions.

Operating Budget

The 2018/2019 operating budget amounts to R395,200 million (including operating and capital Grants).

Capital Budget

The 2018/2019 capital budget amounts to R34,637million, funded from MIG.



Employee cost and other expenditure to total Operating expenditure

The total employee cost for 2019/2019 including remuneration of councillors amounts to 41% of the total operating budget (excluding capital transfers). It should be noted that the casual wages, standby allowances and overtime are included as part of employee related cost. Furthermore, the increase in employee related costs does not cater for the salaries that are being funded from grants.



FINAL BUDGET 2018/2019

8.1 BUDGET TABLES

(Annexure A)

8.1.1	A1 Budget Summary
8.1.2	A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
8.1.3	A3 Budgeted Financial Performance (revenue and expenditure by detail standard classification)
8.1.4	A4 Budgeted Financial Performance (revenue and Expenditure by Municipal vote)
8.1.5	A4 Budgeted Financial Performance (revenue and expenditure by detail municipal vote)
8.1.6	A4 Budgeted Financial Performance (revenue and expenditure)
8.1.7	A5 Budgeted Capital Expenditure by vote, detailed standard classification and funding
8.1.8	A5 Budget Capital expenditure by vote, detailed standard classification and funding
8.1.9	A6 Budgeted Financial Position
8.1.10	A7 Budgeted Cash Flows
8.1.11	A8 Cash backed reserves / accumulated surplus reconciliation
8.1.12	A9 asset management
8.1.13	A10 Basic Service delivery measurement

8.2 BUDGET SUPPORTING TABLES

8.2.1	SA 1 Supporting detail to “Budgeted Financial Performance”
8.2.2	SA2 Matrix Financial Performance Budget (revenue source/expenditure type and departments)
8.2.3	SA3 Supporting detail to “Budgeted Financial Position”
8.2.4	SA4 Reconciliation to IDP strategic objectives and budget (revenue)
8.2.5	SA 5 Reconciliation to IDP Strategic objectives and budget (operating expenditure)
8.2.6	SA6 Reconciliation to IDP strategic objectives and budget (capital expenditure)
8.2.7	SA7 Measurable performance objectives
8.2.8	SA8 Performance Indicators and benchmarks
8.2.9	SA9 Social, economic and demographic statistics and assumptions
8.2.10	AS10 funding measurements
8.2.11	SA11 Property rates summary
8.2.12	SA 12 & 13 Property rates by category (current year) and service tariffs
8.2.13	SA14 Housing bills
8.2.14	SA15 Investment particulars by type
8.2.15	SA16 Investment particulars by maturity
8.2.16	SA17 Borrowing
8.2.17	SA18 Transfers and receipts
8.2.18	SA19 Expenditure on transfers and grant programme



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8.2.19	SA20 Reconciliation of transfers, grant receipts and unspent funds
8.2.20	SA21 Transfers and grants made by the municipality
8.2.21	SA22 Summary councillor and staff benefits
8.2.22	SA23 Salaries, allowances & benefits (political office bearers /councillors/senior managers)
8.2.23	SA24 Summary of personnel numbers
8.2.24	SA25 Budgeted monthly revenue and expenditure
8.2.25	SA26 Budgeted monthly revenue and expenditure (municipal vote)
8.2.26	SA27 Budgeted monthly revenue and expenditure (standard classification)
8.2.27	SA28 Budgeted monthly Capital Expenditure (municipal vote)
8.2.28	SA29 Budgeted monthly Capital expenditure (standard classification)
8.2.29	SA30 Budgeted Monthly cash flow
8.2.30	SA31 Entities not required
8.2.31	SA32 lost of external mechanisms
8.2.32	SA33 Contracts having future budgetary implications
8.2.33	SA34a Capital expenditure on new assets by asset class
8.2.34	SA34b Capital expenditure on the renewal of existing assets by asset class
8.2.35	AS34c Repairs and maintenance expenditure by asset class
8.2.36	AS35 Future financial implications on the capital budget
8.2.37	SA36 Detailed capital budget
8.2.38	SA37 Projects delayed from previous financial years



9. OVERVIEW OF THE ANNUAL BUDGET PROCESS

Budget Process Overview

Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]

The Act requires the formal budget process to start with the tabling by the Mayor in Council of a schedule showing the key budget deadlines. This was prepared and tabled during a Council meeting in August 2017.

Political oversight of the budget process

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget.

Process used to integrate the review of the IDP & preparation of the budget

Departments were required to give input and their needs to the budget. The budget process is integrated with the review of the IDP through the IDP review mechanism. The outcome of consultation feeding into the IDP review is taken into account in the budget process.

This budget had also better input from government departments in compared to previous years

Process for tabling the budget in Council for consultation

A statutory period of consultation follows the tabling of the budget in Council on 29 March 2017. Meetings with the local community should be advertised in the local press following the tabling of the draft budget.

The Mayor had considered the outcomes of these consultation meetings.

Process for approving the budget

The budget must be approved by Council by 31 May 2018. The consolidation of the two municipality was approved on the 29 of August 2017.

Process and media used to provide information on the budget to the community

All budget documentation, the MTREF together with tariffs and policies, was made available at Council libraries and offices for inspection.

Advertisements informing the public about the availability of these documents and the schedules for the IDP/Budget public hearings was published in all local newspapers and put up at municipal offices and libraries.

10. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN

The IDP has been prepared for the Medium Term Revenue and Expenditure period which includes instances up to 2020/2021. A Budget and IDP Process Plan was developed and approved by Council during August 2017 Council meeting. The whole development of the Budget and IDP was based on the Budget and IDP Process Plan.

All the wards were visited and community needs and inputs were sought. All relevant stakeholders were consulted through the Intergovernmental Relations and Steering Committee meetings. The Draft Integrated Development Plan of 2018/19 was developed in partial response to:

- The requirements of compliance with the Local Government Municipal Systems Act (MSA) 32 of 2000 which prescribes for the review of municipal integrated development plan (IDP), in which it prescribes for the municipality to:
- Identify the gaps that warrant review in its IDP and revise accordingly
- Review its performance and incorporate the outcomes of the review in its IDP review
- Comments raised by MEC on the previous IDP
- Queries raised by the auditor general in the municipality's annual statements which bear relevance for IDP and PMS linkages
- A gap analysis conducted on the current IDP document pointed to the following key areas for specific attention and improvement during the formulation of this IDP.

10.1 Updating of the planning data

Updated statistical information has been sourced from Global Insight 2011 and used to improve our demographic projections. Further, we have collected updated planning information from sector departments and that has necessitated few changes in the document. Also, we have taken into account quarterly statistics information.

10.2 Linkages between IDP, Budget and PMS

This IDP has been designed in such a way to ensure clear alignment between its IDP KPAs, development objectives and Targets. The document provides both the framework adopted for managing our performance management and the actual commitments in terms of the scorecards describing a set of indicators and targets for our performance management.

11. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS

Listed below with a brief description are the municipality's budget related policies. The **detailed policies** are not included in this budget documentation. However, they are available at the office of the Municipal Manager.

This section is trying to give the user of this budget document a broad overview of the budget policy framework and highlights the amended policies by council resolution.

11.1 Budget Policy – Amendments were made on the policy document

Purpose/Basic areas covered by policy/main objective

The objectives of the budgeting policy are to set maximum expenditure limits for the budget or each component thereof, for the Municipality. A Municipality may only incur expenditure in accordance with its approved budget.

11.2 Tariff Policy – Amendments were made on the policy document

Purpose/Basic areas covered by policy/main objective

The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying of tariffs by Raymond Mhlaba Municipality.

11.3 Credit Control and Debt Collection Policy – Amendments were made on the policy document

Purpose/Basic areas covered by policy/main objective

The Local Government: Municipal Finance Management Act, 2003, Act 56 of 2003 contains legal prescriptions for sound and sustainable management of the financial affairs of municipalities. Section 97 deals with revenue management, inter alia with effective revenue collection systems and the preparation of accounts for service charges.

A Credit Control and Debt Collection Policy is required in order to give effect to requirements of Act 56, generally and specifically with revenue collection.

11.4 Cash Management and Investment Policy – No amendments were made

Purpose/Basic areas covered by policy/main objective

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash and investment management.

11.5 Property rates policy – Amendments were made on the policy document
Setting of criteria for establishing rates tariffs.

11.6 Accounting Policy – Amendments were made

Purpose/Basic areas covered by policy/main objective

Accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with GRAP standards and any guiding principles issued by Accounting Standards Board and National Treasury.

11.8 Supply Chain Management Policy – Amendments were made on the policy

Purpose/Basic areas covered by policy/main objective

The objective of this policy is to ensure that the Municipality's procure goods and services at all times comply with the relevant laws and best practices.

11.9 Fixed Assets Management Policy – No amendments were made

Purpose/Basic areas covered by policy/main objective

The fixed assets management policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilisation, control, maintenance and disposal of assets. The policy guides directorates/departments and staff in their responsibility and duties for control of their assets.

11.10 Funding and Reserves Policy – No amendments were made

Purpose/Basic areas covered by policy/main objective

This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

11.11 Policy on the Use and Application of Information Technology – No amendments were made

Purpose/Basic areas covered by policy/main objective

The purpose of this policy is to provide guidance to all current and future users of the information technology (IT) network, consisting of a variety of servers, personal computers, network printers and direct printers, to ensure that the system is properly managed, optimally used, applied to the best advantage of the municipality, and to prevent abuse of the system. This policy cannot lay down rules to cover every

possible situation. Instead, it is designed to express the municipality's philosophy and set out the general principles that employees should apply when using computers.



12. OVERVIEW OF BUDGET FUNDING AND FUNDING COMPLIANCE

12.1 Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

12.2 A credible budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore, the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

12.3 Fiscal Overview of Raymond Mhlaba Municipality

Over the past financial years via sound and strong financial management, Raymond Mhlaba Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

12.4 Long term financial planning

The municipality's financial position is not financial sound and this budget further ensures that. The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

However, due to the size and tax base of the municipality, the municipality is starting to reach its ceiling in terms of its own funds and equitable grant to help fund its budget. Priorities need to be prioritised as demands will always outscore resources available. The approach on the current budget is to prioritise the core functions in order to deliver the services to the community.

12.5 Sources of funding

The main sources of funding can be found under SA table 1.

However, the main own funding sources of the municipality comes from property rates and service charges such as electricity and refuse. The municipality is very dependent on the Equitable Share allocation as a funding source of its operating budget. The municipality does not have any investments and all money is needed on a real "immediate" scenario. This is why money is rather put in short-term investments to obtain a better interest rate than to leave it in operating account.

12.6 Sale of assets

Municipality will also use annual stock and asset register to determine absolute and redundant assets and to make a recommendation to council on what to do with it.

13. GRANT EXPENDITURE AND ALLOCATIONS

The grants programme its expenditure on transfers can be found under SA table 19.

Details of each grant are shown in the schedule that follows:

Name of Grant	Operating/capital	Allocation authority/department	Purpose of grant
Library Services	Operating	Province/ Cultural Affairs and Sport	To enable public libraries to render an improved service by addressing staffing shortages and operating needs.
Councillor remuneration	Operating	National Treasury	To assist municipalities with the cost of cllr remuneration
Local Government Financial Management grant (FMG)	Operating	National Treasury	To promote and support reforms in financial management by building capacity in municipalities to implement MFMA
Integrated National Electrification Programme Grants	Operating	Department of Energy	The aim of this grant is to provide capital subsidies to municipalities to electrify poor households and fund bulk infrastructure to ensure the constant supply of electricity. Allocations are based on the backlog of unelectrified households and administered by the Department of Energy.



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Municipal Infrastructure Grant (MIG)	Operating/ Capital	COGTA	To supplement capital finance for basic municipal infrastructure. The operating portion is utilised for project management unit.
Municipal Systems Improvement Grant	Operating	Department of Cooperative Governance and Traditional Affairs	a range of projects in municipalities in support of the Back to Basics strategy, including helping municipalities set up adequate record management systems, drawing up organograms for municipalities and reviewing their appropriateness relative to their assigned functions, and assisting municipalities with revenue collection plans.

Equitable Share	Operating	National Treasury	The equitable share of national revenue in accordance with the requirements of the Constitution.
EPWP	Incentive	National Public works	This grant promotes the use of labour-intensive methods in delivering municipal infrastructure and services. It is allocated through a formula based on past performance, which creates an incentive for municipalities to create more jobs.

14. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no more “discretionary” funds may be appropriated in the budget due to such funds not being transparent during the consultation process.

The municipality did not budget to make any grant transfers to any outside organisation/body or other organ of state other than the Raymond Mhlaba agency (NEDA) and indigent relief as included per Treasury guidance under transfers and grants paid.



15. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Supporting tables SA 22 and SA 23 summarises the salary, allowances and benefits over the MTREF.

16. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

17. INVESTMENTS

The municipality does not have any money **that complies with the definition of investment**. Monies that are not needed are put in call accounts to attract interest.

18. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

The municipality does not have any roll – over contracts with budget implications.

19. CAPITAL EXPENDITURE AND PREVIOUSLY DELAYED PROJECTS

Capital expenditure details are listed in supporting tables 34 to SA37. The municipality do not have any projects that were delayed in previous financial years.

20. ANNUAL BUDGETS AND SERVICE DELIVERY AGREEMENTS- MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS

20.1 Entities

The municipality has NEDA as an entity.



20.2 Other External Service Delivery Mechanisms.

The municipality has no other service delivery agreements with external parties for the delivery of the Municipality's services except the one for external securities.

21. LEGISLATION COMPLIANCE STATUS

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services. The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting. The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Raymond Mhlaba municipality has been designated as a low capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

The budget preparation process

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

Overview

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager. The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.



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Adoption of the annual budget

The Council must then consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. In its MFMA circular 48, National Treasury set out detailed guidance on the contents of budget documentation and the supporting schedules. Raymond Mhlaba Municipality has made every effort to comply with the circular.

The following table shows how Raymond Mhlaba Municipality complies with the disclosure requirements of section 17 of the MFMA.

Requirement	Disclosure in budget documentation
Schedule of reasonably anticipated revenue for the budget year from each revenue source	A4
Schedule showing appropriations of expenditure for the budget year under the different votes of the Municipality	A3
Schedule setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year	A3 and A4
Schedule setting out- (i) estimated revenue and expenditure by vote for the current year and (ii) Actual revenue and expenditure by vote for the financial year preceding the current year.	A3 and A4
Draft resolutions - (i) approving the budget of the Municipality (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year and (iii) Approving any other matters that may be prescribed.	Section 4
Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's Integrated Development Plan.	Section 22 and SA 7



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Projection of cash flow for the budget year by revenue source broken down per month	SA 25 – SA 26
Proposed amendments to the Municipality's integrated development plan following the annual review of the IDP in terms of section 34 of the Municipal Systems Act	Section 9
Particulars of the Municipality's investments	Section 17 and SA 16
Any prescribe information on municipal entities under the sole or shared control of the Municipality	SA31
Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate	SA31
Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 20
Particulars of any proposed allocations or grants by the municipality to- (i) other municipalities (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (iii) any other organs of state (iv) any organisations or bodies referred to in section 67 (1) (bodies outside Government)	Section 14
The proposed cost to the municipality for the budget year of the salary, allowances and benefits of- (i) each political office bearer of the Municipality (ii) Councillors of the municipality (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager	Section 15
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	SA forms

The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	SA forms
Any other supporting documentation as may be prescribed	SA forms

Other Legislation

In addition to the MFMA, the following legislation also influences municipal budgeting;

The Division of Revenue Act 2010 and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.



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22. OTHER SUPPORTING DOCUMENTS

More details on the budget can be found in the supporting tables SA 1 – SA 38

23. OTHER BUDGET DOCUMENTS

ANNEXURE B

23.1. Tariff List

23.2. Service Standards